



**Government of the District of Columbia**  
**Department of Insurance, Securities and Banking**

Stephen C. Taylor  
Commissioner

**BEFORE THE  
INSURANCE COMMISSIONER OF  
THE DISTRICT OF COLUMBIA**

Re: Report on Examination – **Spirit Mountain Insurance Company Risk Retention Group, Inc.**, as of December 31, 2014

**ORDER**

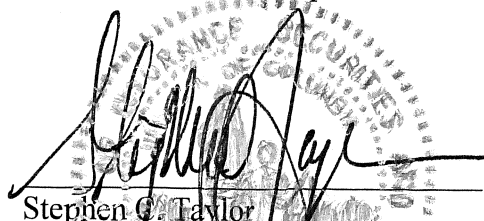
In accord with the authority established by D.C. Official Code § 31-1402, an examination of **Spirit Mountain Insurance Company Risk Retention Group, Inc.** (the “Company”), as of December 31, 2014 has been conducted by the District of Columbia Department of Insurance, Securities and Banking (“Department”). The Department reported on the financial condition of the Company in the attached Report on Examination (“Financial Condition Examination Report”).

In accordance with the provisions of D.C. Official Code § 31-1404 (c), it is hereby ordered, on this 31<sup>st</sup> day of May, 2016, that the attached Financial Condition Examination Report be adopted and filed as an official record of the Department.

Pursuant to D.C. Official Code § 31-1404(d) (1), this Order is considered a final administrative decision, and may be appealed pursuant to D.C. Official Code § Section 31-4332.

Pursuant to D.C. Official Code § 31-1404(d) (1), the Company shall, within 30 days of the issuance of the adopted Financial Condition Examination Report, file affidavits executed by each of the Directors of the Company wherein each of the Directors shall state under oath that they have received a copy of the adopted Financial Condition Examination Report and this order.

Pursuant to D.C. Official Code § 31-1404(e) (1), the Department will continue to hold the content of the above-referenced report as private and confidential information for a period of 10 days from the date of this Order.

  
Stephen C. Taylor  
Commissioner

GOVERNMENT OF THE DISTRICT OF COLUMBIA

DEPARTMENT OF INSURANCE, SECURITIES AND BANKING



REPORT ON EXAMINATION

Spirit Mountain Insurance Company  
Risk Retention Group, Inc.

AS OF

DECEMBER 31, 2014

NAIC NUMBER 10754

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Washington, D.C.  
March 16, 2016

Honorable Stephen C. Taylor  
Commissioner  
Department of Insurance, Securities and Banking  
Government of the District of Columbia  
810 First Street, NE, Suite 701  
Washington, D.C. 20002

Dear Commissioner Taylor:

In accordance with Section 31-3931.14 of the District of Columbia Official Code, we have examined the financial condition and activities of

**Spirit Mountain Insurance Company Risk Retention Group, Inc.**

hereinafter referred to as the “Company”, at the office of the Company’s program administrator, Patriot Insurance Agency, Inc. (“Patriot”) located at 12 Los Encinos Boulevard, Sonoita, Arizona 85637.

**SCOPE OF EXAMINATION**

This full-scope examination, covering the period from January 1, 2010 through December 31, 2014, including any material transactions and/or events noted occurring subsequent to December 31, 2014, was conducted by the District of Columbia Department of Insurance, Securities and Banking (“the Department”). The last examination was completed as of December 31, 2009 by the Department.

We conducted our examination in accordance with the NAIC Financial Condition Examiners Handbook (“Handbook”) and the policies and standards established by the Department. The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. The examination also includes identifying and evaluating significant risks that could cause an insurer’s surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management’s compliance with Generally Accepted Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company’s financial statements.

This examination report includes significant findings of fact, pursuant to Section 31-1404(a) of the District of Columbia Official Code and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

The Company was audited annually by an independent public accounting firm. The firm expressed unqualified opinions on the Company's financial statements for the calendar years 2010 through 2014. We placed substantial reliance on the audited financial statements for calendar years 2010 through 2013, and consequently performed only minimal testing for those periods. We concentrated our examination efforts on the year ended December 31, 2014. We obtained and reviewed the working papers prepared by the independent public accounting firm related to the audit for the year ended December 31, 2014. We placed reliance on the work of the auditor and directed our efforts, to the extent practical, to those areas not covered by the firm's work papers.

### **SUMMARY OF SIGNIFICANT FINDINGS**

The results of this examination disclosed no material adverse findings, significant findings of non-compliance, or material changes in financial statements.

### **STATUS OF PRIOR EXAMINATION FINDINGS**

A full scope financial examination was conducted by the Department as of December 31, 2009, which covered the period June 7, 2005 through December 31, 2009. In the Report on the prior examination, dated March 17, 2011, the Department noted two exception conditions and related recommendations. Our examination included a review to determine the current status of the recommendations in the prior exam report, and determined that the Company had satisfactorily addressed the findings.

### **HISTORY**

#### **General:**

The Company was licensed as an association captive insurance company, operating as a risk retention group under the captive insurance laws of the District of Columbia on June 7, 2005 and began operations on June 16, 2005.

The Company provides professional and general liability coverage, employers' non-ownership auto liability coverage, supplemental medical professional liability coverage and directors and officers insurance to nonprofit organizations offering counseling services.

### Membership:

The Company's insureds ("Members") are members of The International Association of Community Services Organization ("Association"), an Arizona non-for-profit association. The Company insures Members of the Association through an Association master policy and certificates of insurance issued to Members. The Association is the sole policyholder and the Company is wholly-owned by the Association.

The Company's articles of incorporation authorize the issuance of 10,000,000 shares of common stock with par value \$0.25 per share. As of December 31, 2014, the Company had 400,000 common capital stock shares issued and outstanding. All common stock shares were issued to the Association. There are restrictions on the transfer of shares, and the shares shall be redeemed by the Company upon notice that the Association desires to terminate or non-renew coverage under the Company's insurance policies.

The Company was initially capitalized with a \$1,000,000 letter of credit (LOC), in favor of the District of Columbia Commissioner of Insurance, which was procured on behalf of the Company by the Association. After the 2009 expiration and non-renewal of the LOC, the Company was required by the Department to establish and maintain a trust account with a minimum balance of \$500,000. See Note 1 in the "Notes to Financial Statements" section of this Report for further comments regarding the trust account.

### Dividends and Distributions:

During the period under examination, the Company paid policyholders' dividends to Members of \$750,000 in 2011, \$600,000 in 2012, \$600,000 in 2013, and \$760,000 in 2014. In addition, the Company paid dividends of \$25,000 in 2013 to the Association. All dividends and distributions were approved by the Department.

## **MANAGEMENT AND CONTROL**

### Board of Directors and Officers:

The Company's directors serving as of December 31, 2014 were as follows:

<u>Name and State of Residence</u>	<u>Principal Occupation</u>
Roberta Renzi, Chair Virginia	President Patriot Insurance Agency, Inc.
Michael FitzGibbons Arizona	President FitzGibbons and Company, Inc.
Jon Harkavy Maryland	Executive Vice President & General Counsel Risk Services, LLC

The Company's officers serving as of December 31, 2014 were as follows:

<u>Name</u>	<u>Title</u>
Roberta Renzi	President
Michael FitzGibbons	Treasurer
Jon Harkavy	Secretary
Charles Halstead-Johnson	Assistant Secretary
Todd Stewart(a)	Assistant Treasurer

(a) Todd Stewart resigned effective August 28, 2015.

Committees:

As of December 31, 2014, the Company's board of directors had established the following committee:

*Audit Committee:*

Roberta Renzi, Chair  
Michael FitzGibbons  
Jon Harkavy

Conflicts of Interest:

Our review of the conflict of interest statements completed by the Company's directors and officers for the period under examination disclosed that there were no conflicts of interest reported that would adversely impact the Company.

Corporate Records:

We reviewed the minutes of the meetings of the board of directors and shareholders for the period under examination. Based on our review, it appears that the minutes documented the board's review and approval of the Company's significant transactions and events.

Captive Manager:

Risk Services, LLC ("Risk Services") serves as the Company's captive manager, providing management services, including accounting, regulatory services, and records retention services to the Company.

Affiliated Parties and Transactions:

The Company is not a member of a holding company group. However, the Company is a wholly-owned subsidiary of the Association, which is the holder of the master policy issued by the Company. The Company's President is also President of the Association and President of Patriot, the Company's program administrator.

Through a Program Administrator Agreement (“Agreement”) effective June 1, 2011, Patriot provides marketing, underwriting, and premium collection services to the Company. Compensation for these services is 20 percent of gross net premiums written (“GNPW”), subject to an increase of up to 15 percent of GNPW, based on each program year’s ultimate loss ratio. The Agreement has a 5 year term and can be terminated with 45 days advance written notice by one party to the other.

The Company’s captive manager, Risk Services is an affiliate of AmTrust International Insurance Limited (“AmTrust”), the Company’s reinsurer. Both Risk Services and AmTrust are under common control of AmTrust Financial Services, Inc. (“AFS”). Risk Services acts as a reinsurance broker for the Company’s reinsurance and receives a broker fee equaling 10 percent of the premium for business ceded by the Company to AmTrust.

### **TERRITORY AND PLAN OF OPERATION**

As of December 31, 2014, the Company was licensed in the District of Columbia and was registered as a risk retention group in all 50 states. The Company wrote premiums in all 50 states in 2014, totaling \$2,529,261.

The Company insures Members of the Association through an Association master claims made policy and certificates of insurance issued to Members. Annual limits provided to the Members are a maximum of \$1,000,000 per occurrence and \$3,000,000 in the aggregate for each facility for all professional and general liability coverage and supplemental medical professional liability coverage, \$1,000,000 per occurrence and in the aggregate per facility for directors and officers liability coverage, and \$300,000 per occurrence and in the aggregate per facility for employers’ non-ownership auto liability coverage.

The Company has no employees and its daily business operations are managed by its program administrator, Patriot, in Sonoita, Arizona, and by its captive manager, Risk Services LLC, in the District of Columbia.

### **REINSURANCE**

Effective July 1, 2009, the Company was a party to a reinsurance agreement with AmTrust, which is rated “A” (Excellent) by A.M. Best. Under the terms of the agreement, the Company cedes losses of \$750,000 in excess of \$250,000 per occurrence. The maximum recoverable is 300 percent of the annual ceded premiums and 200 percent of the total ceded premiums over the four-year term of the agreement. During 2012, the agreement was extended for four years covering the period July 1, 2012 to June 30, 2016.

As of December 31, 2014, the Company reported estimated reinsurance recoverable on unpaid losses and ceded unearned premiums totaling \$216,653 and \$204,061, respectively. If the reinsurer is unable to meet its obligations under the agreement, the Company would be liable for any defaulted amounts.



## **FINANCIAL STATEMENTS**

The following financial statements are based on the Annual Statement filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2014. The financial statements were prepared in accordance with accounting practices generally accepted in the United States ("GAAP"). Management is responsible for the preparation and fair presentation of these financial statements. The accompanying notes on financial statements reflect any examination adjustments to the amounts reported in the Annual Statement and should be considered an integral part of the financial statements.

<b><u>STATEMENT</u></b>	<b><u>PAGE</u></b>
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## BALANCE SHEET

### ASSETS

	<i>December 31, 2014</i>
Bonds ( <b>NOTE 1</b> )	\$ 1,819,095
Cash (\$4,151,379) and short-term investments (\$235,236) ( <b>NOTE 1</b> )	<u>4,386,615</u>
Subtotals, cash and invested assets	\$ 6,205,710
Investment income due and accrued	11,345
Uncollected premiums and agents' balances in the course of collection	23,564
Net deferred tax asset	46,928
Aggregate write-ins for other than invested assets:	
Deferred policy acquisition costs	160,452
Prepaid expenses	8,733
Total	<u><u>\$ 6,456,732</u></u>

**LIABILITIES, SURPLUS AND OTHER FUNDS**

	<i>December 31, 2014</i>
Losses ( <b>NOTE 2</b> )	\$ 1,281,878
Loss adjustment expenses ( <b>NOTE 2</b> )	320,469
Other expenses (excluding taxes, licenses and fees)	373,871
Taxes, licenses and fees (excluding federal and foreign income taxes)	54,664
Current federal and foreign income taxes	6,853
Unearned premiums (after deducting unearned premiums for ceded reinsurance of \$204,061)	489,583
Dividends declared and unpaid: Policyholders	382,315
Ceded reinsurance premiums payable (net of commissions)	<u>212,442</u>
 Total Liabilities	 <u>\$ 3,122,075</u>
 Common capital stock	 \$ 100,000
Gross paid in and contributed surplus	300,000
Unassigned funds (surplus)	<u>2,934,657</u>
 Surplus as regards policyholders	 <u>\$ 3,334,657</u>
 Total	 <u><u>\$ 6,456,732</u></u>

**STATEMENT OF INCOME**

	<i>2014</i>
UNDERWRITING INCOME	
Premiums earned	\$ 2,237,099
DEDUCTIONS	
Losses incurred	\$ (3,505)
Loss expenses incurred	2,415
Other underwriting expenses incurred	<u>1,166,547</u>
Total underwriting deductions	<u>\$ 1,165,457</u>
Net underwriting gain	\$ 1,071,642
INVESTMENT INCOME	
Net investment income earned	\$ 13,902
Net realized capital gains (losses)	<u>(1,689)</u>
Net investment gain	\$ 12,213
Net income before dividends to policyholders, after capital gains and before all other federal and foreign income taxes	\$ 1,083,855
Dividends to policyholders	760,000
Net income after dividends to policyholders, after capital gains and before all other federal and foreign income taxes	\$ 323,855
Federal and foreign income taxes incurred	228,407
Net income	<u><u>\$ 95,448</u></u>

### **CAPITAL AND SURPLUS ACCOUNT**

Surplus as regards policyholders, December 31, 2009	\$ 2,176,264
Net income, 2010	582,938
Change in net unrealized capital gains	<u>23,985</u>
Net change in surplus as regards policyholders, 2010	<u>606,923</u>
Surplus as regards policyholders, December 31, 2010	\$ 2,783,187
Net income, 2011	42,001
Change in net unrealized capital gains	<u>18,230</u>
Net change in surplus as regards policyholders, 2011	<u>60,231</u>
Surplus as regards policyholders, December 31, 2011	\$ 2,843,418
Net income, 2012	56,272
Change in net unrealized capital losses	<u>(14,815)</u>
Net change in surplus as regards policyholders, 2012	<u>41,457</u>
Surplus as regards policyholders, December 31, 2012	\$ 2,884,875
Net income, 2013	390,182
Change in net unrealized capital losses	(8,051)
Dividends to stockholders	<u>(25,000)</u>
Net change in surplus as regards policyholders, 2013	<u>357,131</u>
Surplus as regards policyholders, December 31, 2013	\$ 3,242,006
Net income, 2014	95,448
Change in net unrealized capital losses	<u>(2,797)</u>
Net change in surplus as regards policyholders, 2014	<u>92,651</u>
Surplus as regards policyholders, December 31, 2014	\$ 3,334,657

### **ANALYSIS OF EXAMINATION CHANGES TO SURPLUS**

There were no changes to the Company's surplus as a result of our examination.

## **NOTES TO FINANCIAL STATEMENTS**

### **NOTE 1 - Trust Account:**

As of December 31, 2014 the Company reported “Bonds” totaling \$1,819,095 and “Cash” totaling \$4,151,379. Included in these balances were bonds totaling \$490,663 and cash totaling \$14,758 which were held in a trust account. In conjunction with the 2009 retirement of the Company’s letter of credit, the Company was required to establish and maintain a trust account with a minimum balance of \$500,000 maintained at all times. Accordingly, in August 2009, the Company executed an “Institutional Custody Agreement” with a third-party trustee. Under terms of the Agreement, the trustee serves as custodian of the funds which are held for the benefit of the Department. Except upon written direction of the Commissioner, withdrawals from the account may not be made if as a result of a withdrawal the balance in the account would fall below \$500,000. Funds in the account must be comprised of cash and conservative fixed income investments. The Company has discretion over the investments in the account within guidelines established by the Department, and is entitled to receive investment income on the funds. As of December 31, 2014, the Company held assets in the account with a market value of \$505,421, comprised of cash of \$14,758 and bonds of \$490,663.

### **NOTE 2 - Losses and Loss Adjustment Expense Reserves:**

The Company reported net “Losses” and “Loss adjustment expenses” reserves totaling \$1,281,878 and \$320,469, respectively. These reserves represent management’s best estimate of the amounts necessary to pay all claims and related expenses that have been incurred but are still unpaid as of December 31, 2014.

The methodologies utilized by the Company to compute reserves, and the adequacy of the loss and loss adjustment expenses reserves as of December 31, 2014, were reviewed as part of our examination. As part of our review, we relied on the Company’s independent actuary, who concluded that the Company’s reserves make a reasonable provision for all unpaid loss and loss adjustment expense obligations. In addition, as part of our review of the Company’s reserves, we engaged an independent actuary to review the methods employed, assumptions relied upon, and conclusions reached by the Company’s actuary. The independent actuary utilized in our examination concluded that the methodologies and assumptions utilized by the Company’s independent actuary to compute these reserves, and the amount of the reserves as of December 31, 2014, were reasonable and adequate.

### **SUBSEQUENT EVENTS**

We noted no significant subsequent events as of the date of this report.

### **SUMMARY OF RECOMMENDATIONS**

During the examination, no issues warranting recommendations in this examination report were noted.

## SIGNATURES

In addition to the undersigned, the following examiners representing the District of Columbia Department of Insurance, Securities and Banking participated in certain phases of this examination:

Sarah Lucibello, CFE, Lewis & Ellis, Inc.  
Ryne Davison, CFE, Lewis & Ellis, Inc.  
Lindsey Pittman, CFE, Lewis & Ellis, Inc.

The actuarial portion of this examination was completed by Dan Reppert, MAAA, FCAS, Consulting Actuary with Financial Risk Analysts LLC.

Respectfully submitted,



David Palmer, CFE  
Examiner-In-Charge  
Lewis & Ellis, Inc.

Under the Supervision of,



Xiangchun (Jessie) Li, CFE  
Supervising Examiner  
District of Columbia Department of Insurance,  
Securities and Banking





**Government of the District of Columbia**  
**Department of Insurance, Securities and Banking**

**Stephen C. Taylor**  
**Commissioner**

April 27, 2016

Roberta Renzi  
President  
Spirit Mountain Insurance Company Risk Retention Group, Inc.  
C/o Risk Services, LLC  
2233 Wisconsin Ave, N.W. Suite 310  
Washington, DC 20007

RE: Examination of **Spirit Mountain Insurance Company Risk Retention Group, Inc.**  
as of December 31, 2014

Dear Ms. Renzi:

Pursuant to the provisions of Section 31-1404 of the D.C. Official Code, enclosed is a draft copy of the Report on Examination ("Report") of the affairs and financial condition of Spirit Mountain Insurance Company Risk Retention Group, Inc. (the "Company") as of December 31, 2014.

Please submit, to my attention, a written response calling attention to any errors or omissions. In addition, if this Report on Examination contains a section entitled "Summary of Recommendations" that discloses certain areas requiring action, the Company shall submit a statement covering the corrective measures which will be taken. If the Company's position on any of these points is contrary to the Examiner's findings, an explanation should be submitted covering each contested comment and/or recommendation.

If there are no errors or omissions to be brought to our attention, and there is no "Summary of Recommendations" requiring a response, please submit a statement that the Company accepts the Report.

The response must be in writing and shall be furnished to this Department by May 26, 2016. In addition to a hard-copy response, please also furnish the response electronically via e-mail to me, in a Microsoft "Word" format, to [sean.odonnell@dc.gov](mailto:sean.odonnell@dc.gov).

Sincerely,

Sean O'Donnell  
Director of Financial Examination,  
Risk Finance Bureau

Enclosure

810 First Street, NE, Suite 701 • Washington, DC 20002 • Tel: 202-727-8000 • [disb.dc.gov](http://disb.dc.gov)

**SPIRIT MOUNTAIN INSURANCE COMPANY RISK RETENTION GROUP, INC.**

2333 Wisconsin Ave, N.W., Suite 310

Washington, DC 20007

May 26, 2016

Mr. Sean O'Donnell, Director of Financial Examination  
Department of Insurance, Securities & Banking  
Risk Finance Bureau  
810 First Street, NE, Suite 701  
Washington DC 20002

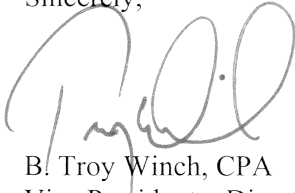
**Re: Spirit Mountain Insurance Company Risk Retention Group, Inc. ("SMIC")**  
**NAIC Company Code: 10754, NAIC Group Code: 0000, FEIN: 20-3011260**

Dear Mr. O'Donnell,

On behalf of SMIC, the company has reviewed the examination and has found no errors. The company would like to thank DISB for conducting a professional examination.

Should the Department find that any additional information is required with regard to the enclosed, please do not hesitate to contact me by phone at 941-373-1105 or via email at [twinch@pboa.com](mailto:twinch@pboa.com).

Sincerely,

A handwritten signature in black ink, appearing to read 'B. Troy Winch', is positioned above the typed name.

B. Troy Winch, CPA  
Vice President – Director of Captive Insurance Risk Services, LLC  
As managers for  
**Spirit Mountain Insurance Company**  
**Risk Retention Group, Inc.**



**Government of the District of Columbia**  
**Department of Insurance, Securities and Banking**

**Stephen C. Taylor**  
**Commissioner**

May 27, 2016

Roberta Renzi  
President  
Spirit Mountain Insurance Company Risk Retention Group, Inc.  
C/o Risk Services, LLC  
2233 Wisconsin Ave, N.W. Suite 310  
Washington, DC 20007

RE: Examination of **Spirit Mountain Insurance Company Risk Retention Group, Inc.**  
as of December 31, 2014

Dear Ms. Renzi:

We are in receipt of the response dated May 26, 2016 by B. Troy Winch, Vice President of Risk Services, LLC, regarding the Report on Examination of Spirit Mountain Insurance Company Risk Retention Group, Inc. (the "Company") as of December 31, 2014. The response is deemed adequate.

The adopted Report (which includes a copy of this letter), and the Order evidencing such adoption are enclosed. Pursuant to Section 31-1404(e)(1) of the District of Columbia Official Code, the adopted Report will be held private and confidential for a period of 10 days from the date of the Order evidencing such adoption. After this 10 day period has passed, the Report will be publicly available.

Pursuant to Section 31-1404(d)(1) of the District of Columbia Official Code, within 30 days of the date of the above-mentioned Order, affidavits executed by each of the Company's directors stating under oath that he or she has received a copy of the adopted examination Report and related Order shall be filed with this Department. Please send these affidavits to my attention at the Department.

Please contact me at 202-442-8153 if you have any questions.

Sincerely,

Sean O'Donnell  
Director of Financial Examination  
Risk Finance Bureau

Enclosures